

An Analysis of the
Free Trade Area of the Americas

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INTRODUCTION

The Free Trade Area of the Americas (referred to as FTAA) is a policy of expanding the North American Free Trade Agreement (referred to as NAFTA) to the entire western hemisphere (excluding Cuba, of course). NAFTA forms the basis for the FTAA Agreement, but the FTAA also goes further in diminishing trade barriers¹. Negotiations between the various trade ministers began in December of 1994 in Miami. At this time, 34 nations met in Miami to begin discussing what a possible FTAA would look like².

Over the next two years or so, trade representatives met twice more in Denver and Cartagena, Columbia. At these meetings, they set out the framework for the FTAA that the future negotiations would take place under. They also concluded that negotiations for the FTAA should be concluded by the year 2005³. In 1998, the ministers that met to discuss the FTAA urged their governments to begin formal negotiations on the creation of the FTAA. In April of 1998, formal negotiations on the FTAA launched in Chile⁴. After several years of negotiations, the ministers again met in Miami. They reaffirmed their commitment to complete negotiations on the FTAA by January 2005⁵. Negotiations have currently stalled and the January 2005 deadline has been passed. Two of the most

1Arnold, Rick. (2003). Perspectives on the Free Trade Area of the Americas. *Canadian Dimension*, 37(6), 10.

2SICE. Free Trade Area of the Americas – FTAA. Retrieved 08 March 2005 from http://www.sice.oas.org/ftaa_e.asp

3 Ibid.

4 Ibid.

5MINISTERIAL DECLARATION OF MIAMI - Eighth Ministerial Meeting. Retrieved 08 March 2005 from: http://www.sice.oas.org/FTAA/miami/declaration_e.asp

prominent countries participating in the negotiations are the United States and Brazil, both of which are looking at forming “subregional” trade agreements while the FTAA talks are halted⁶.

The trade negotiators believe that the FTAA will benefit all the countries involved. They believe that “economic integration”, of which the FTAA is a large part, will help by “strengthening democracy, creating prosperity and realizing human potential”⁷. They also believe that the FTAA will help “foster economic growth, the reduction of poverty, development, and integration through trade liberalization”⁸. These are all noble goals, indeed.

There has also been a growing opposition to the FTAA. Most opposition groups have been built upon groups that initially opposed NAFTA. Opposition groups are actively opposing the FTAA in both the United States and other American nations. The AFL-CIO (one of the largest labor unions in the USA) even opposes the FTAA⁹. Several nations are also opposed to the FTAA. Venezuela is one such nation. They see the FTAA not as simply another trade treaty but rather as the creation of a “supranational legal and institutional system that will eventually prevail over the current system in our country”¹⁰. Opposition groups believe that the FTAA is a facade for the extraction of capital and resources from less-developed American nations that will only harm them.

The FTAA was initiated by trade representatives of 34 American nations. The

6Hornbeck, J.F. (2005). A Free Trade Area of the Americas: Major Policy Issues and Status of Negotiations. *A Report of the US Congressional Research Service*.
7MINISTERIAL DECLARATION OF MIAMI.

8 Ibid.

9Arnold, Rick. (2003). Perspectives on the Free Trade Area of the Americas.

10 Ibid.

opposition movements have been started by many different groups, but most of them are anti-globalization groups that focus on both fair trade issues as well as those of social justice.

The FTAA has not yet come into effect. Because of this it is hard to determine both the publics' reaction and the amount of attention the issue will receive in the media. However, for an issue that has not yet come into effect, there has been a tremendous backlash already. Protests at the Miami ministerial meeting in 2003 were widespread. The issue-attention cycle definitely applies to this issue. With the talks currently stalled, it has most likely reached the apex of public attention.

At the heart of the FTAA, there are two diametrically opposed sides. The proponents of the FTAA claim that free trade will help improve everyone's economic conditions. Whereas the opponents of the FTAA claim that it will only end up hurting a vast majority of the common people while helping fatten the wallets of large corporations.

In order to better understand the FTAA and what is truly going on evaluative criteria must be chosen. The most important evaluative criteria in analyzing any policy is whether or not the policy meets its stated goals. Secondly, it must be determined how well or efficiently it meets those goals (if at all). Thirdly, the degree of citizen participation is an important aspect of any policy. Together these criteria should give an observer a general idea as to the value of the evaluated policy in terms of reaching the stated goals and more specifically how they are reached (because, after all, how a goal reached is just as important as the goal itself).

The single most important aspect of determining good policy is how well

government turns the will of the people into policy. In this regard it is important not only to evaluate whether or not a stated goal is reached but how it is reached and how much citizen participation is involved. The FTAA is a policy that will affect approximately 800 million people¹¹. With this many people affected and so much at stake the involvement of those people is very important. The evaluative criteria chosen will help determine whether or not the FTAA constitutes good policy.

POLITICS OF POLICY

Free trade has been a fixture of political discourse for hundred of years. Ever since the end of feudalism and the rise of capitalism free trade has been talked about. Traditionally people from the right end of the political spectrum have endorsed trade liberalization and free trade claiming that it is akin to individual liberty. People from the left end of the political spectrum, however, typically argue against free trade claiming that it is not about freedom but rather about opening more opportunities for a select group of capitalists and therefore not equitable at all.

The Free Trade Area of the Americas has been under negotiation since 1994. Most negotiations have taken place in secret (or relative secrecy) through meetings of the trade representatives of the participating American nations¹². The negotiations are aimed at expanding the free-trade policies of NAFTA to all countries of North and South America. NAFTA was signed by the United States, Canada, and Mexico in 1994 thereby creating the largest free trade zone in history.

NAFTA, by most accounts, is a failure. One of the arguments used to help ensure

11 Public Citizen, "Making the Links: A People's Guide to the WTO and FTAA". Retrieved electronically 20 May 2005 from: http://www.citizen.org/documents/Making_the_links.pdf

12Public Citizen. "Unveiling 'NAFTA for the Americas'". Retrieved 10 April 2005 from: <http://www.citizen.org/documents/FTAA%20Factsheet%20Jan.%202003.pdf>

the passage of NAFTA was that it would help raise the standard of living in Mexico (the least developed of the three NAFTA signatories)¹³. This is a noble goal and something that both proponents and opponents of free trade would most likely see as a valid objective. Over 1.5 million farmers in Mexico have been economically destroyed by the dumping of cheap US corn on their market¹⁴. Average manufacturing wages actually fell from US\$5 per day to only US\$4 per day¹⁵. NAFTA's legacy is also one of contributing to drastic increases in “toxic dumping and water contamination near the US-Mexico border¹⁶. Respective to the goal of increasing the Mexican standard of living NAFTA is obviously a failure. There is a long list of similar cases.

The FTAA reached the agenda almost immediately after the signing of NAFTA. Then-President Bill Clinton convened the Summit of the Americas (which included the unveiling of NAFTA) in Miami at the end of 1994¹⁷. The FTAA negotiations began immediately. This was an extension of former President George Bush's “dream of a free trade zone linking the economies of the hemisphere from Anchorage, Alaska to Tierra del Fuego, Chile”¹⁸. This shows how little difference the two main political parties in the US differ on this issue.

Large corporations and their lobbies are at least partially responsible for the FTAA being advanced. Both major US political parties seem to endorse free trade. With these kind of supporters it is easy to see that the policy got on the agenda rather easily. The US

13 Public Citizen. “NAFTA at Ten: The Mexican Economy, Agriculture and Environment”. Retrieved electronically 20 May 2005 from: http://www.citizen.org/documents/NAFTA_10_mexico.pdf

14 Ibid.

15 Ibid.

16 Ibid.

17 Public Citizen, “Making the Links: A People's Guide to the WTO and FTAA”.

18 Ibid.

Trade Representative was also an important force behind the FTAA push.

The FTAA is clearly a top-down formulated policy. It has been said that some US Congressmen don't even know what is going on behind the closed doors of FTAA negotiations¹⁹. The negotiations are conducted by trade representatives of each nation. The representatives are influenced by many different corporate groups. According to Public Citizen “over 500 corporate representatives have security clearance and access to FTAA NAFTA expansion documents”²⁰. Meanwhile civil society organizations are left out in the cold. A “Committee of Government Representatives on Civil Society” was formed to represent the views of these civil society organizations. But “it has no mechanism to incorporate civil society concerns and suggestions sent into the negotiations”²¹. For all intents and purposes, the FTAA negotiations are completely undemocratic. The various opposition groups have no voice in the negotiations.

The FTAA is an incremental policy. It builds on previous free trade agreements such as NAFTA, various bilateral agreements, the General Agreement on Trade and Tariffs (GATT), the World Trade Organization (WTO), and the like. The intent of the FTAA is to be an “aggressive expansion of NAFTA” that incorporates “tough new rules from the WTO” that allows itself to expand not only into other nations but other economic sectors as well²².

The FTAA would seem to be an example of a constituent policy according to Lowi's typology²³. It has already been shown that an interest group (predominantly

¹⁹Public Citizen. “Unveiling 'NAFTA for the Americas’”.

²⁰ Ibid.

²¹ Ibid.

²² Public Citizen, “Making the Links: A People's Guide to the WTO and FTAA”.

²³ Public Policy Making Class Lecture. March 15, 2005.

corporations and businesses) uses its political muscle to help get the policy on the agenda in the first place. In the formulation step those same interests continue their domination of the process. The US Trade Representative is the primary government agency involved in the formulation of this policy.

The FTAA would also seem to be a good example of the existence of an iron triangle. An iron triangle is a special relationship between a congressional subcommittee, a governmental agency and an interest group. The process of formulation tends to be closed to the public when an iron triangle is in existence. In the case of the FTAA these groups are the congressional committees on trade, the US Trade Representative and the corporate lobbies. The process is highly secretive and not open to the public which reinforces the view that in this policy there is an iron triangle.

Although the FTAA represents a policy that was formulated from the top down, it is a policy that will be implemented from the bottom up. The customs agencies of all the member countries will be doing the actual implementation. It will be left to the individual nations to implement the policy.

The politics of the FTAA negotiations are too closed to be truly effective. The lack of public involvement in a process that will ostensibly impact the lives of over 800 million people is unacceptable. The closed nature of the policy can only hinder potential benefits of the FTAA. The targeting of trade barriers with the intent of elevating living standards is also questionable.

POLICY ANALYSIS FRAMEWORKS

Policy analysis frameworks allow us to glimpse some insight into the basic assumptions and characteristics of policies. In the case of the FTAA it is not different.

An analysis of the FTAA policy will show that each side of the debate view the problem in terms of drastically different policy frameworks thereby shaping their analysis of the policy itself.

On the pro-free trade side of the FTAA welfare economics would seem to dominate the discourse and the policy. The heart of the free trade issue in general is the minimization of governmental interference in the economy. The idea of free trade expands this to international trade.

Free-traders (as people that endorse the concept of free trade are sometimes called) believe that free trade is the best way to raise everyone's living standards. They believe that free trade is the best way to achieve “greater prosperity for our citizens”²⁴. Welfare economics shapes the way free-traders see the world. Free-traders see trade as a global competition. They see free trade as the best way to make nations competitive in this game of economics, ignoring the effect it has on normal people.

Proponents of the welfare economics theory believe that free trade is the most effective way to stimulate the economy. They believe that it increases competitiveness and allows the consumer greater freedom. Free-traders also believe that “Free markets without government 'interference' would be the most efficient and socially optimal allocation of resources”²⁵. The proponents of both the welfare economics theory and the FTAA believe that it will enhance efficiency while maximizing profits and consumer choices.

24 Remarks of Peter F. Algeier, Deputy US Trade Representative. 27 April 2004. Retrieved electronically 2 May 2005 from:
http://www.ustr.gov/assets/Document_Library/USTR_Deputy_Speeches/2004/asset_upload_file109_4408.pdf

25 “A Primer on Neoliberalism”. Retrieved electronically 2 May 2005 from:
<http://www.globalissues.org/TradeRelated/FreeTrade/Neoliberalism.asp>

Proponents of welfare economics would argue that trade barriers hamper efficiency. To a proponent of welfare economics barriers such as tariffs and subsidies may contribute to growing inefficiency in the economy. While free trade is obviously an economics issue, most free-traders don't want any governmental involvement in trade and are happy in their belief that a free market constitutes a “perfectly competitive market”²⁶. Typically, politically conservative actors and think-tanks support this view of free trade.

Opponents of free trade would seem to support the political philosophy approach to policy analysis. Opponents typically come from the left end of the political spectrum and take a principled stance against free trade. They believe it creates “greater poverty and [the] increased concentration of wealth”²⁷. The interest in fairness of the political philosophy approach would also tend to make one believe that the opponents of free trade subscribe to this approach to analysis. They do not believe “free trade” is the same thing as “fair trade”. Also, public reaction can be an important factor in free trade (as protests are common).

Social structure also offers some insight into the issue of the FTAA. Opposition to free trade sees the problem as one of social significance. Groups in society, typically the upper class and the lower class, have competing interests. These groups do not have similar power when it comes to influencing policy as is apparent. One that subscribes to the social structure theory would argue that the upper class is behind the FTAA as they stand to benefit most from it whereas the lower class (the wider public) is not involved in

Pittsburgh. 32.

27 Hansen-Kuhn, Karen. (2001). “Opposition to Free Trade is Internationalist, not Isolationist”. Retrieved electronically 2 May 2005 from: http://www.developmentgap.org/opposition_to_ft.pdf

the process and has the most to lose.

Political philosophy would seem to offer the most compelling analysis of this issue. Political philosophy tends to put an emphasis on policy as a sum of all the values of a society. If free trade benefits so few compared to the suffering it imposes on so many it cannot be good for society as a whole. The legacy of free trade agreements like NAFTA is the loss of jobs, a decline in manufacturing wages, an increase in the number of people living in poverty and environmental damage²⁸. With social impacts like this, it is obvious that something is wrong.

Welfare economics makes an argument in favor of free trade but is not as convincing. While free trade may bring a greater degree of “efficiency” to the economy it is simply not the best way to achieve the social goals set out by the FTAA. Efficiency is not all there is to a policy. As it was mentioned before sometimes how a goal is reached is just as important as the goal itself. Welfare economics fails when it comes to free trade issues because it does not take into account that some people simply cannot fend for themselves.

Policy analysis frameworks tend to dominate the analysis of this policy. The worldview of the proponents of the FTAA is influenced by the welfare economics framework. They tend to dominate the formulation of this policy because they have the resources and political clout to do so. The assumptions made by the proponents are exactly that, assumptions. There is very little evidence validating their claims that free trade will help improve living standards.

Meanwhile the opponents of the FTAA are pushed aside. Their view of the policy

²⁸ Global Exchange. “Top Ten Reasons to Oppose the FTAA”. Retrieved electronically 2 May 2005 from: <http://www.globalexchange.org/campaigns/ftaa/topTen.html>

is strongly shaped by political philosophy and social structure. These analysts see the problem as a systemic problem that must be addressed rather than simply removing trade barriers. The very actions of the proponents of free trade have a negative impact on the living conditions of millions and letting them get more of what they want will only cause suffering.

The dominant policy analysis theory, welfare economics, leaves something to be desired. Addressing living standards as simply a matter of efficiency may not be the best way to look at the problem. A more holistic approach is required. An approach that takes not only the voices and opinions of the public into account but also the systemic problems of capitalism would seem to offer a much better alternative in situations like this.

POLICY DESIGN

In order to fully understand this policy it is important to look at it through the lens of Policy Design Theory. Policy Design Theory will allow an observer to understand the goals of a policy and how they are to be accomplished. A successful analysis will help understand the likelihood of success in achieving a policy's goals.

The first element of the Policy Design Theory is the statute itself. The statute, since it has not yet been implemented, is still in the draft stage. The final draft agreement will no doubt be substantially different, seeing as how the negotiations are stalled (they must be stalled for a reason, most likely a disagreement).

The stated “objectives” of the FTAA are as follows:

- [a] trade liberalization with a view to generate economic growth and prosperity, contributing to the expansion of world trade;]
- [b] to generate increasing levels of trade in goods and services, and investment, by means of market liberalization, through [fair, clear, stable, and

predictable] [fair, transparent, predictable, coherent and with no counter-effect on free trade] rules;]

[c) to enhance competition and improve market access conditions for goods and services among the Parties, including in the area of government procurement;]

[d) to eliminate barriers, restrictions and/or unnecessary distortions to free trade among the Parties,[including unfair trade practices, para-tariff measures, unjustified restrictions, domestic subsidies and aids to trade in goods and services];]

[e) to eliminate the barriers to the movement of capital and business persons among the Parties;]

[f) to foster the development of a hemispheric infrastructure that facilitates the circulation of goods, services, and investment; and]

[g) to establish mechanisms that guarantee greater access to technology, through economic cooperation and technical assistance.]²⁹

While the proponents of the FTAA will claim the goal of free trade in general terms is to raise living standards and improve economic conditions, one need look no farther than the draft agreement itself to see the true “purpose” behind the FTAA. The draft agreement reads “The purpose of this Agreement is to establish a free trade area”³⁰. The preamble to the draft agreement claims the member nations are:

COMMITTED to advancing towards economic prosperity, strengthening ties of friendship [and cooperation] and democratic values and institutions, [and] protecting fundamental human rights and the security of persons, and promoting social development among the Parties, within a framework of equity, [and][consistent with the underlying principles [of the Summit of the Americas] and overall objectives of the Summit of the Americas process;]³¹

This confusion between a commitment, a purpose, and the objectives leaves one

29 Chapter II of the *FTAA Draft Agreement*. (2003). Retrieved electronically 14 May 2005 from: http://www.ftaa-alca.org/FTAADraft03/ChapterII_e.asp

30 Ibid.

31 Preamble of the *FTAA Draft Agreement*. (2003). Retrieved electronically 14 May 2005 from: http://www.ftaa-alca.org/FTAADraft03/ChapterI_e.asp

scratching his or her head.

The second element of Policy Design Theory is the agents responsible for the implementation of the statute. In this case, the US Trade Representative is the primary governmental agency involved in the FTAA negotiations (domestically speaking). The US Customs Service will be the primary agency that actually implements the accords (in the United States). Similar agencies in the other member nations will undoubtedly exist to implement their end of the agreements. It is a stretch of even the best imagination that the US Customs Service shares a commitment to “advancing towards economic prosperity, strengthening ties of friendship [and cooperation] and democratic values and institutions, [and] protecting fundamental human rights and the security of persons, and promoting social development”³².

The third element of Policy Design Theory is the tools used to implement the statute. The tools used to implement the FTAA are many in number but several stick out in particular. Tariffs play an important role in trade. The FTAA draft agreement has a provision for the elimination of tariffs. Part of this program is the cap of tariffs at current value and the banning of any increase in tariff rates³³. It seems that most provisions in the agreement limit the ability of governments to restrict trade (that makes sense since it is a “free” trade agreement).

The choice of these tools (and agencies) exposes several assumptions made by the policy formulators. The largest assumption is that the free flow of capital and resources (free trade) will improve standards of living. As has been shown earlier this assumption

32 Preamble of the *FTAA Draft Agreement*. (2003).

33 Chapter VIII of the *FTAA Draft Agreement*. 2003. Retrieved electronically 14 May 2005 from:
http://www.ftaa-alca.org/FTAADraft03/ChapterVIII_e.asp

did not seem to hold up to scrutiny in the case of the conditions of workers and families in Mexico under NAFTA. The US Trade Representative claims that “American trade policy works toward opening markets throughout the world to create new opportunities and higher living standards for families, farmers, manufacturers, workers, consumers, and businesses”³⁴. The US Trade Representative has obviously made up their collective mind that free trade will help everyone.

Businesses will obviously stand to benefit from the selection of these tools. Certain businesses will, of course, profit more. By removing tariffs and other “barriers” to trade it will be easier for companies to move their production facilities to nations with lower labor costs and less environmental restrictions. A logical argument as to how the loss of local jobs and an increase in world pollution will create “higher living standards” has yet to be made³⁵.

The tools affect the targets by easing restrictions on how they do business. This is intended to allow businesses more freedom to do as they please. This policy makes a big assumption about the nature of businesses that the opposition parties do not recognize as valid. This policy assumes that businesses will do what is best for everyone, not just themselves. One would be hard pressed to find support for this claim. The opposition will claim that businesses do what is best for them at the expense of everyone else. Of course these assumptions play a vital role in the use and selection of tools.

The fourth element of Policy Design Theory is the target(s). The targets are groups whose behavior needs to be modified in order to promote a certain outcome. In

34 Mission of the USTR. Retrieved electronically 20 May 2005 from:
http://www.ustr.gov/Who_We_Are/Mission_of_the_USTR.html

35 Ibid.

the case of the FTAA, the targets are businesses in the Western Hemisphere. Again, the assumption here is that through more unregulated trade these businesses will help affect a positive change in living standards and economic prosperity.

These targets have been chosen for a political as opposed to practical reason. Businesses, particularly large corporations, have much more political clout (at least partly stemming from their vast resources) than ordinary people. This all but ensures they get a seat at the table while common people are ignored. In the case of trade this is doubly so.

The final element of Policy Design Theory is the outcome(s) of the policy. The outcome desired is the creation of a free trade zone. The FTAA will obviously do this. A seemingly peripheral outcome is the increase in economic prosperity and higher living standards. This relative degree of success of this outcome is much less obvious.

It seems that no matter how much discretion or resources are given to the agencies involved in this policy the ostensible goals are unlikely to be accomplished. The biggest argument against the likelihood of free trade achieving these goals is the legacy of NAFTA. It is highly unlikely that a policy (NAFTA) that “set limits on domestic meat and produce safety and inspection” and “environmental protections” has a chance to improve living standards, even if it does bring about an increase in economic prosperity³⁶.

EVALUATION AND CONCLUSION

There is a duality present in the FTAA policy. Its ostensible goal is to “create new opportunities and higher living standards”³⁷. But in reality the goal “is to establish a free trade area”³⁸. There is too much evidence of the failures of NAFTA to create an equitable

36 Public Citizen. “NAFTA at Ten: Undermining Sovereignty and Democracy”. Retrieved electronically 20 May 2005 from: http://www.citizen.org/documents/NAFTA_10_democracy.pdf

37 Mission of the USTR.

38 Chapter II of the *FTAA Draft Agreement*. (2003).

method for improving living conditions through free trade. Even the objectives of the FTAA draft agreement only address the goal of creating a free trade area.

Earlier, criteria were chosen in order to evaluate this policy. The first criteria is whether or not the policy can meet its stated goals. If the goal is truly the improvement of living standards then by following the NAFTA model it is almost assured of failure. Even the goal of creating a free trade area is in jeopardy because the negotiations have stalled.

The second criteria is how effective the policy is at achieving its goals. Obviously if the policy cannot achieve its goals it is not effective at all. There have been serious concerns at the ability of a free trade area to improve living standards and even to create economically prosperity fairly.

The third criteria chosen was the degree of citizen participation (or the fostering of democracy). The negotiations take place in secrecy and there is no mechanism in place to take into account the opinions and needs of common citizens. It is clear then that this policy does not encourage citizen participation or foster democracy.

The FTAA does not seem to constitute good policy. It does not turn what most people want (i.e. Improved living conditions and economic prosperity for all) into reality. It does not foster democracy and it does not seem to involve citizens. There are alternatives to improve living standards and create equitable economic prosperity.

Fair trade is a way to improve the living standards of millions of people. Social justice groups such as Oxfam advocate this method to international trade rather than the free trade model. According to Oxfam:

Fair Trade is a growing, international movement which ensures that producers in poor countries get a fair deal. This means a fair price for their goods (one that covers the cost of production and guarantees a living income), long-term contracts

which provide real security; and for many, support to gain the knowledge and skills that they need to develop their businesses and increase sales.³⁹

Fair trade can make trade equitable. It would prevent developing countries from losing capital and resources to more powerful nations and corporations. This will actually ensure that people that need an improvement in their living standards the most will get it.

Overall the Free Trade Area of the Americas is not a good policy. Expanding a policy (NAFTA) that already does not meet its goals does not make any sense. Alternatives to free trade need to be considered. However, the gap in resources and political power between the two sides of the free trade issue all but assure that the opponents of free trade will not get a chance to impart their opinions and views into the process. Fair trade will have to be a grassroots campaign. Without more voices involved in the process the FTAA is doomed to fail.

39 Make Trade Fair Campaign. "Fair Trade and You". Retrieved electronically 22 May 2005 from: <http://www.maketrade-fair.org/en/index.php?file=25032002111113.htm&cat=4&subcat=1&select=1>